

September 2019

## Pillar 3 Disclosure

### 1. Overview

This document contains information concerning the risk and capital management practices of Sanford C. Bernstein Limited ("SCBL" or "the Company" or "the Firm") which must be publicly disclosed according to the provisions of Part 8 of the Capital Requirements Regulation ("CRR").

The information contained in this document reflects the position as at 31 December 2018.

The Board is ultimately responsible for the Firm's systems and controls and for reviewing the effectiveness of those arrangements. However, such arrangements are designed to mitigate, not eliminate, risk and therefore can provide reasonable, but not absolute, assurance against material losses or financial mis-statements.

The Board of Directors of SCBL confirms that:

- The Company has a proactive approach to risk management which is aligned to the business plan objectives and priorities and is embedded in the culture of the business. As a result, the Company is able to identify, assess, mitigate, monitor, and report risks arising from its business.
- The Board has reviewed the risk management arrangements of the Company, and considers that the Risk Management Policy and Framework, and the associated systems in place are adequate with regard to the Company's profile and strategy. The Board has adopted a formal policy to comply with the disclosure requirements in the CRR.
- The Company is exposed to a variety of risks that arise in the course of their business. These risks include operational risk, credit risk, market risk and conduct risk. The Company seeks to limit exposure to any other risks or deems such risks to be immaterial in the context of its business.
- The Company has put in place Risk Management Policies and Operational Risk Framework which is designed to limit the adverse effects of these risks on the financial performance of the Company.
- The Board has defined risk appetite, which is reviewed at least annually and monitored regularly. Any breach of these appetites is investigated and escalated to the ROC and Board if necessary.
- Risks are identified, managed and recorded by each area of the Company by their risk owner. These risks are added to the Key Risk Indicator dashboard which is reported to the ROC which assess the substance of identified risks and the effectiveness of the mitigation of the reported risks.

These disclosures have been approved by the Firm's ROC and Board.

#### 1.1 Regulatory Requirements for "Pillar 3" Disclosures

Under the FCA's Prudential sourcebook for Investment Firms ("IFPRU"), SCBL is an IFPRU 730K limited activity firm, and reports its Pillar 3 disclosures on a solo basis. SCBL manages its capital and risk requirements using the Basel III framework of the Basel Committee on Banking Supervision ("Basel Committee") as applied by the EU to investment firms in amendments to the Capital Requirements Directive ("CRD"), and the CRR. The Basel III framework consists of three pillars:

**Pillar 1:** sets out minimum capital requirements firms are required to meet for credit, market and operational risk.

**Pillar 2:** requires firms and their regulatory supervisors to consider whether a firm should hold additional capital against risk not adequately covered in Pillar 1. In the UK, this is implemented through the Individual Capital Adequacy Assessment Process (ICAAP) undertaken by the firm. The minimum capital to be held by The Firm is the higher of that calculated under pillar 1 and pillar 2. SCBL is required to produce, use, and update its ICAAP on at least an annual basis.

**Pillar 3:** requires firms to publicly disclose certain details of their risks, capital, and risk management arrangements.

The objective of this disclosure is for SCBL to meet its CRR Pillar 3 disclosure requirements as set out in Part 8 of the CRR.

## 1.2 Company Background

SCBL is an indirect wholly-owned subsidiary of AllianceBernstein L.P. (the “Parent”). The Parent is a publicly reporting United States Securities and Exchange Commission-registered investment adviser. As at 31 December 2018, a majority of the Parent's units were indirectly owned and controlled by AXA S.A. and its group of companies (collectively, the “AXA Group”) based in Paris, France.

The principal activity of SCBL is the provision of high quality independent pan European research and equity dealing services on an agency basis to institutional clients.

The Company will also act as an execution broker for US based clients trading through its affiliate, Sanford C. Bernstein & Co., LLC. In addition, the Company will distribute US and Asian equity research, produced by US and Asia based analysts, to its pan European client base.

The Company is a member firm of the Euronext and London stock exchanges, and various multi-lateral trading facilities.

## 1.3 Additional Information

**Audit:** Some of the Company's Pillar 3 disclosures have been taken from the Company's audited financial statements (and have been noted as such in the document). However, these Pillar 3 disclosures have not been audited.

**Materiality:** The Company is required under regulatory guidance to disclose material matters. The Board regards information as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making an economic decision. If the Board consider certain information to be immaterial, it may be omitted from this disclosure document.

**Proprietary and confidential information:** Information shall be regarded as proprietary to an institution if disclosing it publicly would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render an institution's investments therein less valuable.

**Governance arrangements:**

- Recruitment policy for Board directors complies with the FCA requirements. A multi-stage interview process is conducted to ensure that candidates have the appropriate aptitude, skills and experience to contribute to achieving the Firm's strategic objectives.
- The balance and diversity of the board is important, and this is considered when making a selection decision, but it should be noted that the Board does not have any rigid diversity targets.
- The Board receives a monthly business update prepared by the COO/CRO which highlights the key issues arising in the month and a profit/loss account prepared by the Financial Controller. There is also a full Management Information Pack produced on a monthly basis which is circulated to the Board, including board members, with detailed financial analysis and breakdown of inter-alia profit & loss, expenses, revenue, and other key indicators including risk indicators.
- The Firm has a Risk Oversight Committee (ROC) which meets quarterly and is chaired by the SCBL COO/CRO.

## 1.4 Frequency of Disclosures

These disclosures will be published at least once a year. Given its size and complexity, the Firm assesses that this annual publication should generally meet its disclosure requirements.

## 1.5 Verification, Media and Location

These disclosures have been prepared solely for the purpose of fulfilling the Firm's CRR Pillar 3 disclosure requirements and are not used for any other purpose.

These disclosures will be published on the website of the Firm's Parent ([www.bernsteinresearch.com](http://www.bernsteinresearch.com)). In line with Article 434(2) of the CRR, the Firm includes a clear statement in its annual financial statements indicating where its Pillar 3 statement can be found.



## 2. Risk Management Objectives and Policies

The Firm's risk management objectives and policies are supported by its corporate governance arrangements, its risk management framework and its risk management processes, including its processes for mitigating and monitoring its risk.

### 2.1 Corporate Governance Arrangements

#### Board of Directors

The Board of Directors of the firm is shown below along with the number of directorships held by each member.

Name of Board Director	Number of directorships held (April 2019)
Tobias Bayliss	1
Suren Chellappah	7
Daniel Gordon	10
Alexandra Perricone	2
Marie Freier De Amarins	2
John McConnell	1
Denise Keen	1
Sebastian Lewis	1
Dipak Mistry	1
Robert van Brugge	4

The Board has constituted, and delegated certain responsibilities to, the following committees:

- *UK Sellside Risk Oversight Committee (ROC);*
- *Crisis Management Committee*, a joint committee with SCBL's Buy Side affiliate;
- *Health and Safety Committee*, a joint committee with SCBL's Buy Side affiliate;

The Board also relies on the activities of a number of committees and sub-committees of the AllianceBernstein group, including:

- *Executive Committee* which is comprised of the Alliance Bernstein L.P. ("Alliance") Chief Executive Officer, the Alliance President/Chief Operating Officer, Strategic Business Unit ("SBU") Heads and other senior executives, sets strategic goals and objectives and manages the day-to-day activities of the international group. The Chairman of SCBL sits on this Committee.
- *The SCB Global Risk Oversight Committee ("GROC")* is chaired by the SCB Head of Risk. The primary purpose of the GROC is to assist the sell-side business of AllianceBernstein in meeting its supervisory/monitoring obligations. Specifically, the Committee is responsible for assessing and overseeing the investment and compliance risk attributes and activities related to AllianceBernstein's sellside brokerage activities. SCBL's Chairman, CEO, and COO/CFO, all sit on this Committee.
- *Audit Committee* – The primary responsibility of the AllianceBernstein Audit Committee is to: assist the international group's board in its oversight of (1) the integrity of the financial statements of the international group, (2) the international group's status and system of compliance with legal and regulatory requirements and business conduct, (3) the independence, qualification, appointment, compensation and evaluation of the external auditor firm, and (4) the performance of the international group's internal audit function. The Audit Committee comprises three independent directors of the Board of the international group.
- *Business Continuity & Disaster Recovery Committees* conduct an independent assessment of business continuity and disaster recovery plans, as well as the testing associated with such plans;
- *Fraud Committee* is responsible for informing Risk Management of actual or potential incidents of fraud (internal and external), and losses associated with such incidents are recorded in the Loss-Incident Database;

### **UK Sellside Risk Oversight Committee**

The UK sellside Risk Oversight Committee (ROC) is chaired by the Firm's Chief Risk Officer and meets quarterly. It is comprised of members of senior management including the CEO. The role of the ROC is to ensure that the systems and controls of SCBL operate effectively and to advise the Board of Directors on the establishment, implementation, and maintenance of adequate policies and procedures relating thereto. It shall be the duty of the Committee to review and to escalate to the Board such regulatory or systems and controls issues as, in its reasonable opinion, warrant Board discussion and/or direction with appropriate recommendations or guidance. In particular, but without prejudice to the generality of the foregoing, the Committee shall advise the Board on:

- identifying operational, compliance and regulatory risks relating to all the activities, systems and processes of SCBL;
- setting the level of risk tolerated by SCBL;
- managing the risks identified (within any risk tolerance); and,
- monitoring the effectiveness of SCBL's systems and controls (including risk management and control policies and procedures), and compliance with such arrangements policies and remedial action.
- Reviewing the firm's arrangements for the effective management of conflicts of interest.
- Reviewing the firm's Pillar 3 disclosure documents.

## **2.2 Risk Management Framework: Three Lines of Defence**

The Firm has adopted a "three lines of defence" model which can be summarised as follows:

### **First Line of Defence**

The first line of defence is comprised of the senior managers responsible for the Firm's business units and departments who are primarily responsible for identifying and managing risks in their area and for developing and communicating policies, guidance, and procedures necessary to manage those risks.

### **Second Line of Defence**

The second line of defence is comprised of the Risk and Compliance functions.

- The Risk function is responsible for facilitating the development, implementation and embedding of processes whereby management identifies assesses, monitors, controls and mitigates the risks in their areas.
- The Compliance function is responsible for monitoring adherence to regulatory standards and for reporting its findings to relevant senior management and to the Board. The Compliance function is also responsible for the provision of technical regulatory/compliance advice and support.

### **Third Line of Defence**

The third line of defence is comprised of the Internal Audit function.

Internal Audit provides independent assurance of the suitability and effectiveness of the Firm's risk management framework, including management's execution of its responsibilities to ensure an effective system of internal controls, risk management, and compliance is embedded in throughout the Firm.

## **2.3 Risk Appetite**

The Firm's approach to setting risk appetite first considers the risks inherent in each of its strategies and objectives and then evaluates the most effective way to provide for these risks. For the key risks which cannot be perfectly controlled, the residual risks are quantified and a determination is made whether to provide for each risk with financial planning buffers or with capital (or a combination of both). Generally, expected losses are provided for with financial planning and P&L buffers and unexpected or extreme losses are provided for with capital. These quantifications of risk appetite are the basis on which the Firm's Internal Capital Adequacy Assessment Process ("ICAAP") is developed.

The Board is actively involved in establishing the risk appetite of the Firm in several ways and participates in the development and approval of the Firm's 'Top' material risks, as well as the scenarios and stress tests associated with those risks, which in turn are incorporated into the Firm's ICAAP process and the determination of its capital requirements.

There are currently 12 'Top' risks identified on the risk register and approved by the Board. The Board considers that all 12 of these risks are "overall material" to the Firm. The risks are all operational in nature.

As part of the firm's regulatory capital calculations, each risk was modelled to a 99.5% confidence level using a Monte Carlo simulation engine. The risks modelled also include the operational aspects of liquidity and concentration risk.

Finally, the Board receives regular updates from Risk Management regarding the overall risk profile of the Firm's activities and, as appropriate, approves the allocation of mitigation resources and monitors the status of those risks.

The Board takes a cautious and prudent approach to Risk. As such, the Firm does not materially commit its own capital in its activities (i.e. no proprietary trading) and instead only undertakes trading on behalf of its clients wherever possible on a matched-principal and delivery-versus-payment ("DVP") basis. New activities are evaluated on the basis of both their risk profile and cost-benefit analysis.

The Board further demonstrates its approach to Risk Appetite by setting tolerances on its major risks with early warning indicators, where appropriate, for these key risks.

### 3. Risk Management by Category of Risks

As with all broker-dealers, risk is inherent in the nature of the Firm's business and activities and the key risks to which the Firm is exposed are primarily operational risks.

Risk management is the process of identifying, measuring, monitoring and managing both enterprise and portfolio risks in order to minimize unanticipated losses and uncompensated risks. The goal is not to eliminate risk, but rather to identify and understand the risks being taken, and to ensure that appropriate processes and tools exist to manage these risks. The Firm has clear risk management policies and practices in place to manage each category of risk.

#### Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Firm has a Risk Management function which facilitates the ongoing identification, assessment, monitoring and mitigation of risks. The Firm uses a Monte Carlo simulation to calculate the amount of capital to be set aside for each of its key operational risks – for further details please refer to the Governance and Internal Control Section, and see table below. The ROC escalates key risks to the Board for consideration as "Top Risks", which are in turn developed into scenarios for capital modelling purposes at a 99.5% (1 in 200) confidence level.

#### Equity position risk

The Firm operates on an agency/ matched principal basis. Any reported net position is expected to be due to inadvertent positions arising from either a trader error and/ or client facilitation and therefore this risk is managed similarly to operational risks.

#### Foreign exchange risk

Foreign Exchange Risk (FER) is the exposure of the Firm's financial condition to adverse movements in exchange rates from its non-sterling revenue streams and from its non-sterling assets and liabilities. These items arise substantially from the Firm's trading activities in continental European equities.

The Firm actively manages its cash balances and converts surplus foreign currency balances to sterling at each month end.

#### Credit risk

The Firm's credit risk arises from its cash deposits with banks and financial institutions, as well as credit exposures to debtors in respect of outstanding receivables. Cash deposits are only held with high quality institutions and regularly monitored. All cash is held either in current accounts or overnight deposits only i.e. there are no deposits terms greater than one day.

In addition, there is an active credit control monitoring process whereby aged receivables are reviewed on a regular business and where appropriate, an amount set aside as provision for debts that are not expected to be collected in full.

#### Concentration/ large exposures

The Firm, as a Limited Activity firm, is not subject to the FCA's hard limits on large exposures.

The Firm's main concentration risk is associated with cash it holds at banking organisations and it mitigates this risk by ensuring all such organisations are either globally or domestically systemically important banks.

The Firm is not concentrated by client, with no single client representing more than 2.5% of revenue. In addition, each client has a hard credit limit in the Firm's trading systems based on its internal credit rating and therefore is allocated one of 3 daily credit limits. It should also be noted that the Firm only deals with Institutional clients who are invariably regulated entities.

#### Settlement / Delivery risk

In the normal course of business, the Company is exposed to limited Settlement risk as transactions are settled via the delivery versus payment settlement process and invariably within 5 business days. Failed trades are typically not a capital issue for the Firm as nearly all trades settle by Settlement Date +1. However, the Firm does monitor aged failed trades on daily basis.

#### Liquidity risk

Liquidity Risk is the risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost. In accordance with BIPRU 12, the Firm has a Liquidity Risk Management Framework and a Contingency Funding Plan.

The liquidity requirements for SCBL arise from two sources:

- Clearing and settlement of securities trading activities; and
- Day-to-day routine financial activities including the settlement of non-trading book creditors, Accounts Payable and payroll, offset by the receipt of non-trading book receivables, particularly non-trading accounts receivable.

### Business risk

This is the risk that the Firm's strategy does not materialise as planned. The Firm operates in a dynamic and competitive business sector and consequently the Firm must pay close and constant attention to its pricing, product and operating model.

### Interest rate risk

Interest rate risk is the exposure of a firm's financial condition to adverse movements in interest rates.

The Firm's analysis of its exposures to interest rate risk is set out below:

1. The Firm does not hold interest bearing government or corporate bonds - either from a proprietary trading book or a non-trading book perspective.
2. Cash is held in either current accounts or, if surplus, on overnight deposit. Cash is used to facilitate the settlement process and as such is used from a working capital perspective - it is not regarded as an investment. Current account and overnight interest rates are traditionally low and are likely to remain so into the foreseeable future. The Firm does not rely on interest income to fund its operations.
3. The Firm has not issued any intercompany loans.
4. The Firm has received £6.5m of subordinated debt from its parent on which it pays interest at a monthly rate of LIBOR+2%. A 200 point basis movement would have an annual insignificant incremental interest charge impact (in the context of the Firm's size), and even lower post tax. The subordinated debt was repaid on 29<sup>th</sup> March 2019 and replaced with a like for like capital contribution.
5. The Firm does utilise intra-group loans to cover central counterparty margin payments when it trades through its direct memberships of execution venues. However, these margin payments can be eliminated if the Firm trades exclusively through its broker counterparts, and as such avoid the impact of an increase in interest rates.

### Group risk

Group risk is the risk that the financial position of a firm may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risks which may affect the financial position of the whole group (eg, reputational contagion).

The Firm relies on London based AllianceBernstein Services Limited ("ABSL") for various administrative and technology support services, including fixed asset ownership (e.g. for in-stance, IT hardware), Internal Audit, Human Resources, Finance (treasury, corporate taxation, accounts payable) and Facilities support. The technology outsourcing includes interoffice networks and intra-net connections as part of AllianceBernstein's global technology platform. This platform also supports desktop hardware, network servers and communication routers.

The costs associated with these outsourced activities are recharged on an arm's length basis and reflected in the Firm's P&L and base case projections. In the event of ABSL no longer providing these services to the Firm, the Firm would negotiate a suitable exit plan with ABSL before onboarding these activities in-house.

The ultimate parent of ABSL is also the ultimate parent of the Firm.

### Cyber risk

Cyber risk is the risk of ineffective cyber security failing to protect IT infrastructure systems, networks, devices and data/ information assets from unauthorised access, damage or attack.



With Cyber risk, it's impacts are driven from weak information security or network / IT controls resulting in disruption, loss of access to, or of, information assets.

The Firm has reviewed these potential impacts of these within the key risks which were modelled using the Monte Carlo engine:

- Unavailability of trading systems
- Unauthorised access to unpublished research by...external parties
- Insider Trading / Frontrunning of research or client trades
- Fraudulent payments / transfers by or to external parties

## 4. Internal Capital Adequacy Assessment and Capital Resources

The Firm undertakes its Internal Capital Adequacy Assessment Process (ICAAP) at least annually (or as material changes in conditions warrant) in fulfilment of its Pillar 2 requirements.

### 4.1 Internal Capital Adequacy Assessment Process (ICAAP)

The Firm reviews its risks based on the latest business plans and forecasts and, as part of the annual ICAAP process, assesses both its expected internal capital requirements and its Pillar 1 capital requirements.

The ICAAP review includes assessing the results of certain events and on the capital adequacy of the Firm. These scenarios include an orderly wind-down scenario. These are used to confirm to the Board that the Firm has robust processes in place to maintain capital resources that are prudent, appropriate and proportional to the anticipated risks of its business activities.

### 4.2 Own Funds

The Firm has a simple capital structure and does not use any exotic capital instruments. A summary of the Firm's capital resources appear in the tables below. SCBL seeks to ensure that it has sufficient capital to support its strategy, cover its risks and at all times comply with the CRR regulatory capital requirements.

<u>Capital Resources</u>	£'000
Tier 1	
Ordinary share capital (including share premium)	71,542
Audited retained earnings	-33,781
Total Common Equity Tier 1 Capital	37,761
Tier 2 - subordinated debt	6,500
Total Capital resources	44,261
Total Capital Resources requirement - Pillar 1	18,231
Capital Surplus	26,030

The figures in the table above are taken directly from the "Company Balance Sheet" section of the SCBL financial statements for the year ended 31 December 2018. Consequently, a reconciliation to the audited financial statements is not required.

SCBL's own funds comprise Common Equity Tier 1 Capital only. Common Equity Tier 1 Capital is the total of called up equity share capital, share premium account, and audited reserves. Audited reserves are the total of the profit and loss account reserve. SCBL has no additional Tier 1 capital and there are no restrictions or prudential filters on SCBL's capital.

On 1 April 2004 the company entered into a subordinated loan agreement with AllianceBernstein Corporation of Delaware. By a deed of variation dated 22 May 2007 the original repayment date for the loan of 1 April 2011 was extended by six years to 1 April 2017. By a further deed of variation dated 24 May 2012 the repayment date was extended by another six years to 1 April 2023. Interest is payable at a rate of LIBOR + 2%. This loan is deemed to be at a commercial rate. This loan was converted to a Capital Contribution on 29 March 2019.

These details are included in the Capital Instruments' Main features template below.

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Capital Instruments main features template		
1	Issuer	Capital Instruments main features template
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Private Placement
3	Governing law(s) of the instrument	English Law
	Regulatory treatment	
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at sole/(sub-)consolidated/ solo & (sub-) consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£71.5m
9	Nominal amount of instrument	£1
9a	Issue Price	N/A
9b	Redemption Price	N/A
110	Accounting Classification	Shareholders' Funds
11	Original date of issuance	Company incorporated on 20 April 1999 No shares were issued in 2018.
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully Discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully Discretionary
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non- convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A

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Capital Instruments main features template		
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A

#### 4.3 Pillar 1 Capital resources requirement

The firm is required to hold own funds in excess of 8% of their total risk exposure amount ('TREA'). As a 'limited activity' firm, the TREA is the sum of the credit risk requirement plus 12.5 times the sum of the market risk requirement, settlement risk and the fixed overhead requirement (FOR).

The Pillar 1 capital resources requirement for SCBL as at 31 December 2018 is set out in the table below:

Pillar 1	£,000
Credit Risk	2,784
Settlement / Delivery Risk	65
Market Risk	1,197
Fixed Overheads Requirement	14,185
Total	<u>18,231</u>

The Firm applies the standardised approach for calculating all credit and market risks. As a limited activity firm, it is not required to calculate a Pillar 1 operational risk capital requirement. It does apply a fixed overhead requirement equal to one quarter of the firm's relevant fixed expenditure after deducting discretionary payments.

SCBL has total own funds, including subordinated debt, of £44.2m.

#### 4.4 Credit and Counterparty Risk

Risk weighted assets are calculated in accordance with the standardised approach and allocated to the following exposure classes:

	Total exposures	Risk Weighted Assets	Credit Risk Capital Requirement
	£'000	£'000	£'000
<u>Credit Risk by exposure class:</u>			
Institutions	74,777	24,812	1,985
Corporations	3,165	3,165	253

Equity	269	269	21
Deferred Tax	1,552	3,880	310
Other Items	<u>3,650</u>	<u>2,675</u>	<u>214</u>
	<u>83,412</u>	<u>34,801</u>	<u>2,784</u>

There have no impairments or provisions, general or specific, made against any of the above exposures.

#### 4.5 External Credit Assessment institutions

The Firm maps Moodys ratings to the standardised credit risk weights to calculate SCBL's risk-weighted assets for banking institutions using the mapping published by the European Banking Authority.

The firm also applies the standardised approach to calculating counterparty credit exposure on failed transactions (described as settlement/delivery risk). As at 31<sup>st</sup> December 2018 the capital resources requirement was £65,000.

In addition:

- As part of the settlement process, the firm borrows equities and places cash as collateral with institutional counterparties in accordance with PSA/ISMA/standard industry agreements. The Firm applies the financial collateral comprehensive method to quantify volatility and hence net credit counterparty exposure. As at 31<sup>st</sup> December 2018 the amount borrowed from stock lenders totalled £22.8m.

#### 4.6 Equities not in the trading book

The Firm held 58 shares in The Society for Worldwide Interbank Financial Telecommunication ("SWIFT") which is a requirement of all direct members of the SWIFT service. The investment is held as a current asset on the balance sheet at market value (which is also fair value). The exposure value of the investment is £268,626. The gain over the last 12 months is £28,448 and is valued based on the value as announced by SWIFT at their Annual General Meeting. SWIFT provides a network that enables financial institutions worldwide to send and receive information about financial transactions in a secure, standardised and reliable environment.

#### 4.7 Asset encumbrance

Carrying value	Encumbered assets £,000	Unencumbered assets £,000
Loans on demand	-	49,199
Equity Instruments	269	-
Other assets	38,408	476,234
Total assets	38,676	525,433

As at 31 December 2018, encumbered assets totalled £38.7m versus Unencumbered Assets of £525.4m.

SCBL, by virtue of being a member of various exchanges and multi-lateral trading facilities, places initial and variation margin on the central counterparties associated with those venues. This margin is placed for the period that a trade remains open/ unsettled and is returned on settlement date. Due to SCBL's high straight through processing almost all margin is returned by Trade date +3.

In addition, SCBL does engage in stock borrowing to facilitate the settlement process for its clients and market counterparties. As part of this facilitation service, SCBL will place cash collateral with the stock lender whilst the stock borrow is open.

SCBL and its affiliates engage in intercompany trading in the normal course of business. This does not give rise to any asset encumbrance.

## 5. Remuneration

The following remuneration disclosures are made in accordance with the CRR and the Firm's remuneration policy meets the requirements set out in chapter 19A of the FCA's SYSC handbook which sets out the applicable Remuneration Code. These disclosures are made in accordance with the guidance on proportionality, and the Firm is classified as a proportionality tier 3 firm.

In accordance with the requirements of the Remuneration Code, and on a proportionate basis, the Firm has adopted a Remuneration Policy which has been approved by the Firm's Board.

The Firm's remuneration policy is impacted by the Compensation Committee of our Parent company which has general oversight and policy making powers over compensation matters for all employees of its subsidiary companies. The Compensation Committee is ultimately responsible for ensuring that remuneration and incentives are aligned with organizational strategy, do not reward undue risk-taking or failure, and is awarded fairly based on individual, business unit and firm-wide performance.

### 5.1 Decision Making Process

The Firm's remuneration policy clearly outlines control and governance requirements, links between pay and performance and the role and responsibilities of relevant stakeholders. To oversee the implementation of this policy the SCBL Board meets annually in a closed Board session with the Head of Human Capital and minus the heads of Risk, Legal & Compliance and Internal Audit. Risk Management, Compliance and Internal Audit control functions do, however, have the opportunity to advise the Board during the end of year variable bonus process as to whether they feel any employee has taken undue risks or whether they have any concerns that should influence compensation decisions.

The Board meets quarterly and seeks to ensure that the remuneration policies and practices of the firm are aligned with its duty to manage conflicts fairly, so not to create incentives that may lead Relevant Persons to favour their own or the firms' interests to the potential detriment of clients. SCBL expects all staff to act in the best interests of its clients.

### 5.2 Link between pay and performance

The Firm operates an annual discretionary cash and deferred award bonus scheme. The purpose of the scheme is to recognise past performance and to encourage loyalty. Individuals' performance is assessed against objectives including adherence to Staff Handbook rules and effective risk management practice and compliance with FCA rules, as relevant to individual roles. The deferred awards vest over a four year period and receipt of these is contingent upon compliance with the Company's code of conduct. The Firm uses prescribed tables to determine the proportion of any variable remuneration to be paid as cash and in deferred units. The greater the amount of total compensation and the greater the amount of variable bonus, the greater the proportion that will be paid in deferred units.

If undue risk taken in earlier years come to light, the Board expects these risks to be taken into account in determining current year compensation for that business unit or individual. In such scenarios, it would be expected that unvested deferred incentive compensation awards granted for the period in which the failure occurred would be forfeited. Ultimately, if an employee has taken risks beyond their remit, the firm reserves the right to take disciplinary action up to and including termination of employment. This would result in an employee losing all unvested deferred compensation from prior years.

### 5.3 Code Staff Remuneration

Of the 16 code staff identified, 14 are directly employed by SCBL and the aggregate remuneration for these staff is shown below. The firm considers that it has one line of business, namely equity brokerage services.

Type of Staff	Senior Management £'000	Code Staff £'000	Total £'000
Number of staff	11	3	14
Total Fixed Remuneration	2,283	380	2,663
Total Variable Remuneration	2,270	219	2,889
Of which – paid in cash	1,710	165	1,875
- deferred in cash	452	54	506
- deferred in shares	508	-	508

Total fixed remuneration disclosed includes:

- Annual base salaries as at 31 December 2018
- Pension contributions
- Other benefits

Variable remuneration is awarded for the 2018 performance year, with an element deferred in both cash and shares.

For full year ended 31 December 2018, SCBL had 1 individual earning between GBP1.0-1.5m and all other individuals under GBP1.0m.